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SUBJECT: COLOMBIAN PRIVATE AND PUBLIC SECTOR PREPARATIONS
FOR FTA NEGOTIATIONS: ON THE RIGHT TRACK, BUT STILL A WAYS
TO GO

11. (SBU) Summary: During A/S Wayne's January 28-29 trip to Bogota, Colombian government and business leaders expressed strong support for an FTA. They recognized, however, that they have a great deal of homework to do before they are ready to negotiate. Moreover, they expressed concern that nascent outreach campaigns aimed at educating the public and Congress on the benefits of an FTA and building grassroots support are weak and need to be reinforced. There are also many, mostly in the business sector, who believe that Colombia merits special concessions. The more sophisticated attempted to link these calls with the need to develop strong legal alternatives for illicit narcotics production, but even this appears anchored in the concerns of agricultural groups worried about U.S. imports. A/S Wayne made clear at every meeting that this would be a serious negotiation; that the more the negotiators understand their own country, the better; and that building a pro-FTA coalition at home is important. He also stressed that an FTA is not a panacea, but an opportunity to help deepen reforms and increase growth as part of a sound economic development strategy. Colombian leaders understood his message, which was also carried in a full-page interview in Colombia's leading economic daily. End Summary.

The Perspective of U.S. Companies

12. (SBU) U.S. company representatives were bullish on doing business in Colombia and offered suggestions on how to improve local preparations for FTA negotiations. Energy sector executives praised improvements in security, noting that these improvements had made larger investments possible. They agreed that an FTA would improve the business climate and benefit the extractive industry, but expressed a need for a more thorough public education campaign to dispel negative stereotypes surrounding free trade. Representatives of the pharmaceutical and banking sectors stated that the GOC has not touted the successes of programs such as ATPA and ATPDEA enough, noting that the only people speaking up are critics -- namely, Agriculture Minister Cano (reflecting fear of large grain, rice, and sugar producers) and several members of Congress. They added that the GOC also needed to be more aggressive in selling an FTA, noting that President Uribe has been silent on the issue over the past several months after mentioning it often, and underscored the need for the President to take up the FTA banner once more. All agreed that the private sector could play a role in lobbying the legislative bodies of both countries and explaining the benefits of free trade.

13. (SBU) Ambassador Wood highlighted the benefits of an FTA and urged the businessmen to look beyond job creation and increasing the value of established exports and to focus on creating new industries. He also stressed the importance of understanding the linkages and constituencies in both economies, calling on the companies to become actively involved in supporting an FTA. The businessmen agreed, noting Colombia's excellent entrepreneurial potential, earnestness in resolving investment disputes, and readiness to proceed in an FTA, with or without Peru. A/S Wayne stressed that Colombians must recognize the gains and new opportunities from freer trade and emphasized the need to continue judicial and financial structural reforms, even after an FTA.

Trading FTA Points with Trade Minister Botero

14. (SBU) A/S Wayne highlighted to Minister Botero and FTA Negotiator Ambassador Hernando Jose Gomez that a Colombia FTA is a priority and that negotiations would start in the second quarter. He added that unlike ATPDEA, the free trade agreement would require commitments from both sides. A/S Wayne urged Minister Botero to make this clear to the public, adding that the "toughest negotiation will likely be the internal one." Trade benefits would be limited without continuing structural reforms, the A/S said; framing an FTA as one part of an overall economic plan, he added, places it in the context of other social and economic improvements, blunting criticism. The A/S stated that the United States

plans to begin negotiations with Colombia and Peru, and will then broaden them to include Ecuador and Bolivia. Botero expressed concern the negotiations might be delayed if Peru was not ready to begin. He added that the GOC had convened the negotiators from the other countries to begin consolidating their positions, and that Colombia would continue to take the lead.

15. (SBU) Botero said FTA opponents exist in congress, the private sector, and the media. He is especially concerned about the opinion of the Catholic Church, as the power of the pulpit is still very strong in Colombia. The government needs a concerted outreach effort, Botero said. He added that Colombia is not competitive with U.S. grains and cereals, but would be very competitive in fruit and vegetables. Adjustments in phytosanitary rules would also make them very competitive in poultry, dairy, and beef. A/S Wayne pointed out that although the science of the rules cannot be negotiated, the goals are to streamline processes and foster greater transparency on both sides. Botero underscored the social and political sensitivity of Colombian agriculture, saying farm workers who lose their jobs growing corn and rice are most likely to turn to illicit crops. He stated that his government works well with USTR and looks forward to the negotiations, but hopes that other USG agencies might help USTR to develop positions that would take into account the political realities of Colombia. A/S Wayne added that it is important to be very clear about such issues up front and to present a thorough analysis of these problems early in the process in order to assure the negotiators that they are legitimate and deserve attention. Minister Botero ended by reiterating that Colombia is ready to proceed on an FTA, with or without the other countries.

We will stay the course -- Finance Minister Carrasquilla

16. (SBU) A/S Wayne met with Finance Minister Alberto Carrasquilla, Vice-Minister Juan Ricardo Ortega (soon to be Vice-Minister of Trade), and Director of Macroeconomic Policy Andres Arias (subsequently named Vice Minister of Agriculture). A/S Wayne congratulated the financial team on Colombia's economic growth and progress in resolving commercial disputes, and noted that free trade should be a win-win situation. However, he stressed that an FTA must be part of a broader economic plan and will not bear fruit without serious structural reforms. A/S Wayne also stressed the need to settle investment disputes and urged the Minister to promptly pay Nortel once that dispute has been settled. Carrasquilla responded that he understood and that the necessary funds would be available.

17. (SBU) Carrasquilla provided a comprehensive overview of the fiscal situation and acknowledged that liabilities outweigh assets on Colombia's balance sheet. Last year pensions and servicing interest on the debt alone cost Colombia roughly USD 9 billion of the USD 14 billion collected in taxes. He explained that the Uribe administration remains committed to improving efficiency this year by increasing the tax base, eliminating special pension regimes and loopholes in the tax code, and decreasing the size of government. Ortega added that with the loss of the referendum, the Uribe administration faces a tough battle to push cost-cutting and reform measures through a reluctant Congress. He added that Colombia needs to repair local finances, but acknowledged that cutting transfers to regions would be politically difficult. Carrasquilla expressed hope in the paramilitary demobilization and re-integration, noting that the GOC has budgeted sufficient funds to cover the process. He added that demobilization may increase revenues as people move away from petroleum and gasoline smuggling -- a problem costing Colombia USD 300 million a year.

Lunch with GOC Economic Officials

18. (SBU) The Ambassador hosted a lunch on trade issues with the Minister the Environment, Sandra Suarez, Presidential Economic Advisor Dr. Rudolf Hommes, Finance Vice Minister Juan Ricardo Ortega, and trade negotiator Hernando Jose Gomez.

19. (SBU) A/S Wayne and the Ambassador noted the importance of including environmental and labor considerations in an FTA. Minister Suarez acknowledged this and spoke of the importance of sustainable development and of working with business. Minister Suarez and Hommes also expressed doubts about the GOC's ability to change existing environmental legislation to meet the levels required in an FTA. A/S Wayne and Mr. Manogue explained that the Chile and CAFTA FTA's primarily focused on enforcing existing laws. Presidential Advisor Hommes then noted that there must be greater public education and discourse about the benefits of free trade to all sectors of society. He added that there is great fear of an FTA in the agricultural sector in Colombia and agreed that the GOC must begin to talk to Congress and the media. Ortega

added that in order to gain widespread support, the GOC also needs to focus its educational efforts on the sub-federal level. He added that support from local officials will be critical in winning Congressional backing. In an op-ed published Feb. 2, *Hombres* focused on these issues.

110. (SBU) A/S Wayne stressed to the GOC that an FTA has to be part of a national strategy if it is to succeed, noting, for example, that it must be easier to start a business and be an entrepreneur in Colombia. The GOC representatives strongly agreed, but expressed concern about getting the public to buy into changes. Ortega stressed that an FTA could be a catalyst for change, but agreed with the A/S Wayne's assertion that an FTA is not an economic cure-all. Gomez and *Hombres* agreed the GOC needs to work with the private sector to prepare for the negotiations and will need even more support from businessmen to get an agreement approved by Congress.

Colombian Business Leaders Say They're Getting Set for FTA

111. (SBU) A/S Wayne met with the Presidents of Colombia's banking, agricultural producers, and exporters associations. According to Rafael Mejia, president of the national agricultural producers' association, the sector supports an FTA, but he warned that illegal crops and armed groups make Colombia's situation distinct from that of Chile and Mexico. The cultivation of corn, rice, and cotton provides many rural jobs; as a result, the social and political impacts of an FTA are as important as the economic aspects. The sector wants U.S. transition and reconversion funds as well as outreach to help Colombian farmers. Patricia Cardenas, president of the national banking association, stated that her sector sees the FTA as a good opportunity for growth, employment generation, and the development of integrated capital markets. Bankers are concerned, however, that U.S. banks locating branches in Colombia under an FTA would use their off-shore capital, giving them an unfair advantage over local banks with less capital. Finally, national exporters association president Javier Diaz said an FTA provides a unique opportunity to boost Colombia's legal economy and to deal a blow to the problems presented by narcotics and insurgents. APTDEA has permitted the country to increase sales in new dynamic industries like textiles and shoes, lowering unemployment. An FTA not only offers trade in goods but also more potential investment, which would help further reduce unemployment.

112. (SBU) The Colombian business associations said they are working to develop a single voice in the negotiations, and are planning to meet with their U.S. counterparts. Entire sectors are not threatened per se, they stressed. Rather, the threat is to individuals and firms that refuse to adapt. Part of the problem, the A/S agreed, is that people measure wins and losses against the economy as it currently exists, while in reality trade permits new economic actors to enter on the scene to create many more winners. The business leaders also said the FTA promises to bring more sophisticated business practices as well as reforms in tax structures and investment. A/S Wayne stressed that unlike ATPDEA, the FTA requires give and take, and should be just one part of a broad economic approach that includes structural reforms. A/S Wayne also stressed that the private sector has a role in explaining the benefits to the public.

Press Interview

113. (U) A/S Wayne's interview appeared in the February 2 edition of *Portafolio*, the leading economic daily. In the interview, A/S Wayne highlighted the same points that he has raised in his visits. He praised GOC efforts to date to restructure the economy and pave the way for an FTA. The interview highlighted the need for the Colombian negotiating team to work closely with the private sector to identify important negotiating areas. He also made it clear that the FTA was a negotiation, not a concession.

Leading Economic Think Tank Positive on Colombia's Prospects

114. (U) A/S Wayne met with former Mining Minister and Central Bank board member Carlos Caballero, now of the leading economic think-tank, Fedesarrollo. After outlining the woes of the economy after 1998, Caballero painted a very bright picture of Colombia's current recovery, with 3.4 percent GDP growth in 2003 and a projected 3.8 to 4 percent this year. Caballero noted that while productivity and efficiency have been increasing, job creation is slow and the average Colombian does not yet feel the recovery. The government's top three priorities, he believes, should be to consolidate security gains, pass an effective structural fiscal reform, and to sign an FTA.

115. (U) Caballero said private investment grew 20 percent in

2003 fueled by a construction boom, but added that further growth and new jobs will depend on signing an FTA. Colombia's once significant trade with Venezuela dropped by half last year, only to be replaced by U.S. trade thanks to the time-limited ATPDEA preferences. He added that it is critical that Colombia focus outwards, but explained that a national consensus does not yet exist because the priority has been on internal reforms. Fedesarollo is now focusing on reforms in regional revenue sharing and the need to increase land taxes. They believe military spending should be made more rational, and that reprogramming funds from other government agencies, especially the inefficient health and education budgets, will be necessary to maintain the higher military commitments under Uribe.

16. (SBU) Comment: The GOC is off to a good start on FTA preparations inside the government, but still has to do the hard work of building and cementing a pro-FTA consensus at home. Uribe's popularity and high public confidence due to recent security and economic successes will help, but the GOC will need a careful analysis of sector by sector benefits and opportunities as well as ways to address potential "losers'" concerns. End Comment.

17. (U) This cable has been cleared by A/W Wayne.
WOOD